

FILED
October 29, 2010
INDIANA UTILITY
REGULATORY COMMISSION

SWITZERLAND COUNTY NATURAL GAS COMPANY
Vevay, Indiana

INDIANA UTILITY REGULATORY COMMISSION
Cause No. 43897-U

SETTLEMENT TESTIMONY AND EXHIBITS OF
DUANE C. MERCER

SWITZERLAND COUNTY NATURAL GAS COMPANY

Vevay, Indiana

IURC Cause No. 43897-U

Settlement Testimony and Exhibits of

Duane C. Mercer

Q. 1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Duane C. Mercer and my business address is One American Square,
Suite 2600 Indianapolis, Indiana 46282.

Q. 2. MR. MERCER, WHAT IS YOUR OCCUPATION?

A. I am a Certified Public Accountant with the London Witte Group, LLC, a firm,
which, specializes, in utility regulation before the Indiana Utility Regulatory
Commission.

**Q. 3. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL
BACKGROUND AND PROFESSIONAL QUALIFICATIONS, WHICH YOU
BELIEVE MIGHT BE RELEVANT TO THE PRE-FILED TESTIMONY AND
ORAL OPINIONS YOU OFFER?**

A. I am a 1969 graduate of Indiana University where I earned a Bachelor of Science
degree in Business, with a concentration in accounting and economics. Following
graduation, I was employed by the international accounting firm of Ernst & Young
where I performed financial and operational audits, director's examinations and
similar other services for a variety of clients. In 1972, RCA Consumer Electronics
Division employed me in the Internal Auditing Department where I managed in the
development and implementation of audit programs for all fiscal and administrative

1 areas of the Division. In 1976, I became Manager of International Finance for the
2 Consumer Electronics Division of RCA with primary responsibility for financial
3 planning, forecasting, and coordination of our foreign operating plants. In 1978, the
4 Consumer Counselor's office for the State of Indiana employed me as the staff
5 Certified Public Accountant. During my employment with the Consumer Counselor,
6 I advised that office on numerous utility issues coordinated the filings of the Fuel
7 Adjustment Clause and Gas Cost Adjustment with the consultants retained by that
8 office, and testified on their behalf as required. In July 1983, I established a practice
9 specializing in utility regulation. In 1985, I consolidated my practice with two other
10 practitioners and formed Brenner, Mercer & Perry, P.C. to also perform work in the
11 utility regulation area. Since May 1, 1987, I have been the Partner in charge of
12 Utility Services for London Witte Group, LLC, a Firm specializing in, among other
13 areas, utility regulation on behalf of the public, municipal and investor-owned
14 utilities, and intervenors before the Indiana Utility Regulatory Commission.

15
16 **Q. 4. WHAT ARE YOUR PROFESSIONAL AFFILIATIONS?**

17 A. I am a member of the American Institute of Certified Public Accountants (AICPA),
18 and the Indiana CPA Society (INCPAS), for which I have served as a member of the
19 Utilities Committee.

20
21 **Q. 5. ON WHOSE BEHALF ARE YOU APPEARING IN THIS CAUSE?**

22 A. I am appearing on behalf of Switzerland County Natural Gas Company.
23

24 **Q. 6. WHAT IS THE SCOPE AND PURPOSE OF YOUR ASSIGNMENT?**

25 A. I and my Firm were engaged by the Petitioner to analyze Petitioner's current financial

1 information and advise Petitioner and Petitioner's counsel as to changes in various
2 rates and charges that should be sought in order to better provide a reasonable return
3 on investment in used and useful property and cover all operation, maintenance, and
4 tax expenses of the utility. In providing such service, I have reviewed Petitioner's
5 books and records, examined Petitioner's capital structure, and considered the costs
6 associated with various elements of the capital structure, and reviewed Commission's
7 Orders in numerous cases, among other activities. Based upon that review, a small
8 utility filing for Petitioner was filed with the Indiana Utility Regulatory Commission
9 (Commission) on May 7, 2010. Subsequent to that period, the filing was reviewed by
10 the Office of the Utility Consumer Councilor (OUCC) and a report on the results of
11 that review was filed with the Commission on September 7, 2010.

12
13 **Q. 7. MR. MERCER, PLEASE SUMMARIZE THE MAJOR DIFFERENCES**
14 **BETWEEN THE FILING OF THE PETITIONER AND THE REPORT OF**
15 **THE OUCC.**

16 A. Petitioner proposed in its direct case in chief various adjustments to its test year book
17 results as set forth numerically in Petitioner's Exhibit C, and accompanying
18 schedules. Such proforma adjustments included those related to operating revenue,
19 payroll, pension, rate case expense, IURC fee, software maintenance agreement,
20 charitable contributions, outside services expenses, property insurance, bad debt,
21 depreciation expenses, payroll taxes, utility receipt taxes, property taxes, and the
22 calculation methodology of all other taxes. During negotiations and referenced in the
23 OUCC's report, the OUCC suggested different adjustments related to customer
24 growth, payroll, pension, the IURC fee, rate case expense, property insurance, bad
25 debts, directors fees, payroll taxes, utility receipts taxes, and the resulting federal and

1 state income taxes which flow through, along with differences on Petitioner's cost of
2 equity capital.

3
4 **Q. 8. HAVE YOU PARTICIPATED IN DISCUSSIONS WITH THE OUCC SINCE**
5 **THE FILING OF THEIR REPORT?**

6 A. Yes, I have.

7
8 **Q. 9. HAVE THE PARTIES REACHED A RESOLUTION OR COMPROMISE ON**
9 **ANY OF THOSE ISSUES?**

10 A. Yes, the Petitioner and the OUCC have resolved all of the issues in this case.

11
12 **Q. 10. MR. MERCER, HAVE YOU PREPARED NEW ACCOUNTING EXHIBITS**
13 **THAT REFLECT THIS FINAL SETTLEMENT?**

14 A. Yes, attached is Exhibit 1 which includes a set of settlement schedules reflecting the
15 settlement agreement reached with the OUCC.

16
17 **Q. 12. HOW MUCH OF THE PETITIONER'S ORIGINAL REQUEST HAS BEEN**
18 **REDUCED THROUGH THIS SETTLEMENT?**

19 A. About 24% or \$24,981.

20
21 **Q. 13. MR. MERCER, WOULD YOU PLEASE EXPLAIN THE ADDITION OF THE**
22 **NTA MECHANISM TO THE SETTLEMENT?**

23 A. Yes. It had always been the Petitioner's intention that the filing include the addition
24 of an NTA mechanism to Petitioner's tariff. That information was not clearly
25 disclosed as part of the original filing in this Cause and as a result the OUCC report

1 did not address the matter. During the negotiations leading up to the settlement
2 agreement much time was spent discussing this issue. Petitioner's gas rates were
3 designed on the basis of an expected volume of gas to be sold to customers under
4 normal weather conditions. This means that Petitioner will recover its annual fixed
5 cost of providing service only if the level of sales volumes upon which the rate
6 design is predicated is actually achieved. The NTA will help Petitioner in the
7 recovery of its previously authorized fixed costs from customers each month,
8 regardless of weather. Symmetrically, the NTA ensures customers will pay only the
9 level of fixed costs approved in this rate case. Due to the benefits to both the
10 Petitioner and the customer it has been agreed as part of this settlement to allow
11 Petitioner to implement the same NTA mechanism that was previously approved by
12 the Commission in Cause Nos. 43107, 43108, 43109, 43110, 43135, 43136, 43137
13 and 43141.

14
15 **Q. 14. BASED UPON YOUR MANY YEARS OF EXPERIENCE IN MATTERS**
16 **BEFORE THIS COMMISSION, DO YOU BELIEVE THIS SETTLEMENT IS**
17 **REASONABLE?**

18 A. Yes, I do. The settlement is based on a thorough review of information related to this
19 Petitioner and extensive discussions between the Parties, not only as to positions
20 taken, but as to why those positions were taken. The settlement is the result of
21 compromise between the positions each had taken.

22
23 **Q. 15. MR. MERCER, DO YOU RECOMMEND THAT THE COMMISSION**
24 **ACCEPT THIS SETTLEMENT AS FILED?**

25 A. Yes, I do.

1

2 **Q. 16. DOES THAT CONCLUDE YOUR TESTIMONY?**

3 **A. Yes sir, it does.**

SWITZERLAND COUNTY NATURAL GAS COMPANY

CAUSE NO. 43897-U

SETTLEMENT EXHIBIT 1

SETTLEMENT SCHEDULES

SWITZERLAND COUNTY GAS CO., INC.
VEVAY, IN

Pro-Forma Operating Income Statement
At Pro-Forma Present and Proposed Rates
For the 12 Months Ended December 31, 2009

Increase Required: 4.79%

	<u>December</u>	<u>Adjustments</u>	<u>Ref</u>	<u>Pro-Forma</u>	<u>Adjustments</u>	<u>Ref</u>	<u>Pro-Forma</u>
	<u>2009</u>			<u>Present</u>			<u>Proposed</u>
				<u>Rates</u>			<u>Rates</u>
<u>Operating Revenues</u>							
Gas Sales	\$ 1,639,196	\$ (1,174,683)	(1)	\$ 464,513	\$79,877	(A)	\$ 544,390
Other Gas Revenues	11,499			11,499			11,499
Total Operating Revenues	<u>\$ 1,650,695</u>	<u>\$ (1,174,683)</u>		<u>\$ 476,012</u>	<u>\$ 79,877</u>		<u>\$ 555,889</u>
<u>Operating Expenses</u>							
Natural Gas Purchased	\$ 1,212,611	\$ (1,171,666)	(2)	\$ 40,945			\$ 40,945
Other Operation & Maintenance	287,173	27,848	(3&4)	315,021	660	(B & C)	315,681
Depreciation & Amortization	87,485	3,086	(5)	90,571			90,571
Taxes Other Than Income Tax	50,222	(15,238)	(6)	34,984	1,118	(D)	36,102
Income Taxes	(1,028)	(4,536)	(7)	(5,564)	17,438	(E)	11,874
Total Operating Expenses	<u>\$ 1,636,463</u>	<u>\$ (1,160,507)</u>		<u>\$ 475,956</u>	<u>\$ 19,216</u>		<u>\$ 495,172</u>
Net Operating Income	<u>\$ 14,232</u>	<u>\$ (14,176)</u>		<u>\$ 56</u>	<u>\$ 60,660</u>		<u>\$ 60,716</u>

SWITZERLAND COUNTY GAS CO., INC.
VEVAY, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(1) REVENUE ADJUSTMENTS

(a)

Increase in "Operating Revenue" from the elimination of GCA Revenue included in the test year.	<u>\$ 206,424</u>
--	-------------------

(b)

To adjust "Operating Revenue" for changes in the Base Cost of Gas Revenues and to set the Base Cost of Gas to zero.

Test Year Sales - DTH	164,727	
Weather Normal Sales Adjustment	3,612	
Unbilled Revenue Adj	(1,771)	
Lost customer's	(462)	
	166,106	
Adjusted Test Year Sales-DTH	166,106	
Pro-Forma Cost of Gas	\$ 40,945	
Less: Unaccounted for and Company Use	40,945	
	-	
Base Cost of Gas	\$ -	
New Base Rate Cost of Gas	\$ -	
Less:		
Prior Base Rate Cost of Gas Cause No. 42844 - DTH	\$ 8.4400	
	(8.4400)	
Net Change in Base Rate Cost of Gas	(8.4400)	
Adjusted Test Year Sales - DTH	166,106	
Increase / (Decrease) in Operating Revenues Resulting From the Change in Base Rate Cost of Gas		<u>\$ (1,401,938)</u>

SWITZERLAND COUNTY GAS CO., INC.
VEVAY, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(1) REVENUE ADJUSTMENTS CONTINUED

(c)

To Adjust "Operating Revenue" for the normalization of warmer than normal weather.

	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>
Sales- DTH	37,250	16,389	108,014
Sales - Adjustment Dth	0 (1,053)	(240)	(940)
Less: Base Load	<u>(5,988)</u>	<u>(3,004)</u>	<u>(74,232)</u>
Temperature Sensitive Sales	30,209	13,145	32,842
Weather Factor - Warmer Than Normal	<u>4.74%</u>	<u>4.74%</u>	<u>4.74%</u>
Increase in Sales - DTH	1,432	623	1,557
Last Rate Block	<u>\$ 11.073</u>	<u>\$ 11.073</u>	<u>\$ 10.516</u>
Additional Weather Normalization Revenue	<u>\$ 15,857</u>	<u>\$ 6,898</u>	<u>\$ 16,373</u>
Increase / (Decrease) in Operating Revenue resulting from warmer than normal weather.	<u><u>\$ 39,128</u></u>		

(d)

To Adjust "Operating Revenue" for the decline in residential customers.

To annualize the decline in residential customers as of December 31, 2009	\$ (4,837)
To adjust for the same level of customer decline in calendar year 2010.	<u>-</u>
Decrease in Operating Revenue resulting from the decline in residential customers.	<u><u>\$ (4,837)</u></u>

(e)

To Adjust "Operating Revenue" for unbilled revenue (meters read first full week of January)	<u><u>\$ (13,460)</u></u>
Total Adjustment to "Operating Revenues" - Increase / (Decrease)	<u><u>\$ (1,174,683)</u></u>

SWITZERLAND COUNTY GAS CO., INC.
VEVAY, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(2) NATURAL GAS PURCHASED ADJUSTMENT

To adjust "Natural Gas Purchased" to eliminate the cost of natural gas purchased from base rates.

Test Year Sales - DTH	164,727	
Weather Normal Sales Adjustment	3,612	
Unbilled Revenue Adj	(1,771)	
Lost customer's	<u>(462)</u>	
Adjusted Test Year Purchases - DTH	166,106	
Unaccounted for Gas Percentage-Test Year	<u>3.40%</u>	
Pro-Forma Purchased Gas - DTH	5,648	
Anticipated Cost of Delivered System Supply Gas - Per DTH	<u>\$ 7.25</u>	
Pro-Forma Cost of Gas		\$ 40,945
Less: Test Year Purchased Gas		<u>1,212,611</u>
Increase / (Decrease) in "Natural Gas Purchased"		<u><u>\$ (1,171,666)</u></u>

SWITZERLAND COUNTY GAS CO., INC.
VEVAY, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(3) OPERATION AND MAINTENANCE EXPENSE ADJUSTMENTS

(a)

To adjust other "Operation and Maintenance" expense for new part time employee and wage increases.

New Full Time Employee for Operations & Regulatory Assistance	\$	37,000	
Pro Forma Employee Wages		105,893	
Employee Wages During Test Year		<u>(102,859)</u>	
Increase in Employee Wages			<u>3,034</u>
Payroll Adjustment - Increase / (Decrease)			<u>\$ 40,034</u>

To Increase Operations and Maintenance expense for Pension Contribution
For Employees

Payroll Adjustment from 3 (a) - (Full Time Only)	\$	39,872	
Test Year Pension Contribution Rate - (10%)		<u>10.00%</u>	
Pension Expense Adjustment - Increase / (Decrease)			<u>\$ 3,986</u>

(b)

To adjust other "Operation and Maintenance" expense
for the amortization of rate case expense.

Estimated Cost of the 2009 Small Utility Rate Filing	\$	20,000	
Estimated Cost of NTA Application to Regulatory Process		4,750	
Estimated Cost of Update to Billing Software (NTA & Rate)		6,000	
Cost of Prior Rate Case to Be Written Off		<u>-</u>	
Total Estimated Cost		30,750	
Amortization Period - Years		<u>5</u>	
Pro-Forma amortization of rate case expense		6,150	
Less: Test Year Expense		<u>23,987</u>	
Adjustment - Decrease			<u>\$ (17,837)</u>

SWITZERLAND COUNTY GAS CO., INC.
VEVAY, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(3) OPERATION AND MAINTENANCE EXPENSE ADJUSTMENTS CONTINUED

(c)

To Adjust "Operation and Maintenance" expense to
reflect current IURC fee.

Applicable Revenues at Present Rates. (Including GCA Revenue)	\$ 1,680,281	
Current IURC Rate	<u>0.001073599</u>	
Pro-Forma IURC Fee at Present Rates	1,804	
Less: Test Year IURC Fee	<u>2,077</u>	
Adjustment - Increase/(Decrease)		<u>\$ (273)</u>

(d)

To Adjust "Operation & Maintenance" expense to reflect AMR maintenance agreement
and annual Keystone billing software maintenance.

	<u>\$ 2,337</u>
Total Adjustment to "Operation and Maintenance" expense - Increase / (Decrease)	<u><u>\$ 28,247</u></u>

SWITZERLAND COUNTY GAS CO., INC.
VEVAY, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(4) ADMINISTRATIVE AND GENERAL EXPENSE ADJUSTMENTS

(a)

To adjust "Administrative & General" expense to remove charitable contributions.

\$ (1,900)

(b)

To adjust "Administrative & General" expense for increase / (decrease) in legal and accounting fees.

Pro-Forma Legal & Accounting Fees	\$	38,459
Less: Test Year Legal & Accounting Fees		<u>34,963</u>

Accounting Fees Adjustment - Increase / (Decrease)	\$	<u>3,496</u>
--	----	--------------

(c)

To adjust "Administrative & General" expense for property, casualty and general liability insurance.

Pro-Forma Insurance Expense	\$	19,894
Less: Test Year Insurance Expense		<u>19,894</u>

Property, Casualty and General Liability Insurance Adjustment - Increase / (Decrease)	\$	<u>0</u>
---	----	----------

(d)

To adjust "Administrative & General" expense to the two year average of Bad Debt Expense

Average Bad Debt Expense last two Years		12,906
Test Year Bad Debt Expense	0.7190%	<u>(12,501)</u>

Bad Debt Expense Adjustment - Increase / (Decrease)		<u>405</u>
---	--	------------

(e)

To adjust "Administrative & General" expense to annualize director's fee at \$600 per month

\$ (2,400)

Total Adjustment to "Administrative & General" Expense - Increase / (Decrease)	\$	<u>(399)</u>
--	----	--------------

SWITZERLAND COUNTY GAS CO., INC.
VEVAY, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(5) DEPRECIATION EXPENSE ADJUSTMENT

To adjust "Depreciation Expense" to reflect current plant in service.

Utility Plant in Service		\$ 3,039,899	
Less:			
Land	\$ 73,088		
Transportation Equipment	41,012		
Office Furniture & Fixtures	37,915		
Computer Equipment	13,434		
Miscellaneous Equipment	53,728		
Total Plant not Applicable to 2.5% Deprec. Rate		<u>219,177</u>	
Utility Plant Applicable to 2.5% Depreciation Rate		\$ 2,820,722	
Depreciation Rate		<u>2.50%</u>	
Pro-Forma Depreciation Expense @ 2.5%			\$ 70,518
Computer Equipment	\$ 13,434		
Transportation Equipment	41,012		
Total 20% Equipment		<u>\$ 54,446</u>	
Depreciation Rate		<u>20.00%</u>	
Pro-Forma Depreciation Expense @ 20%			\$ 10,889
Office Furniture & Fixtures	\$ 37,915		
Miscellaneous Equipment	53,728		
Total 10% Equipment		<u>\$ 91,643</u>	
Depreciation Rate		<u>10.00%</u>	
Pro-Forma Depreciation Expense @ 10%			<u>\$ 9,164</u>
Total Pro-Forma Depreciation Expense			\$ 90,571
Less: Test Year Depreciation Expense			<u>87,485</u>
Adjustment - Increase / (Decrease) in Depreciation Expense			<u><u>\$ 3,086</u></u>

SWITZERLAND COUNTY GAS CO., INC.
VEVAY, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(6) TAXES OTHER THAN INCOME TAX ADJUSTMENTS

(a)

To adjust "Taxes Other Than Income Tax" for increase
in FICA, FUTA and SUTA Taxes due to payroll increase.

FICA, FUTA and SUTA Taxes:

Payroll Wage Increase Subject To FICA Limits	\$ 40,034	
FICA Tax Rate	7.65%	
Increase in FICA Taxes	<u>\$</u>	3,063
Payroll Wage Increase Subject To FUTA Limits	\$ 7,000	
FUTA Tax Rate	0.80%	
Increase in FUTA Taxes	<u>\$</u>	56
Payroll Wage Increase Subject To SUTA Limits	\$ 7,000	
SUTA Tax Rate	1.10%	
Increase in SUTA Taxes	<u>\$</u>	77
Increase / (Decrease) in FICA, FUTA and SUTA Taxes		<u><u>\$ 3,196</u></u>

(b)

To adjust "Taxes Other Than Income Tax" for Increased
cost of property taxes for 2010

Property Tax:

Pro-Forma Property Tax at Present Rates	\$ 17,031	
Less: Test Year Property Tax Expense	<u>16,934</u>	
Increase / (Decrease) in Property Tax Expense		<u><u>\$ 97</u></u>

SWITZERLAND COUNTY GAS CO., INC.
VEVAY, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(6) TAXES OTHER THAN INCOME TAX ADJUSTMENTS CONTINUED

(c)

To adjust "Taxes Other Than Income Taxes" to reflect changes in applicable revenues for Utility Receipts Tax.

Utility Receipts Tax:

Utility Receipts	\$ 476,012	
Less: Exemption	(1,000)	
Bad debts - Adjustment 4 (d)	<u>(12,906)</u>	
Utility Receipts Subject to Utility Receipts Tax	\$ 462,106	
Applicable Utility Receipts Tax Rate	<u>1.40%</u>	
Pro-Forma at Present Rates	\$ 6,469	
Less: Test Year Expense	<u>25,000</u>	
Adjustment - Increase / (Decrease) in State Utility Receipt Tax Expense		<u><u>\$ (18,531)</u></u>
Adjustment - Increase / (Decrease) in Taxes Other Than Income Taxes		<u><u>\$ (15,238)</u></u>

(7) INCOME TAX ADJUSTMENTS

To adjust "Income Tax" to reflect changes in Revenues and Expenses.

(a)

State Income Tax:

Net Operating Income Before State Tax	\$ (5,509)	
Plus: Utility Receipts Tax	6,469	
Less: Interest Expense per Tax Return	<u>(21,630)</u>	
	\$ (20,670)	
Applicable State Income Tax Rate	<u>8.50%</u>	
Pro-Forma at Present Rates	\$ (1,757)	
Less: Test Year Expense	<u>(79)</u>	
Adjustment - Increase / (Decrease) in State Income Tax Expense		<u><u>\$ (1,678)</u></u>

SWITZERLAND COUNTY GAS CO., INC.
VEVAY, IN

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(7) INCOME TAX ADJUSTMENTS CONTINUED

(b)

Federal Income Tax:

Net Operating Income before Federal Tax and State Income Tax.	\$ (5,509)	
Less: Adjusted State Income Tax	1,757	
Less: Interest Expense per Tax Return	<u>(21,630)</u>	
 Federal Taxable Income	 \$ (25,382)	
Federal Taxable Rate	<u>15%</u>	
 Adjusted Federal Income Tax Expense	 \$ (3,807)	
Less: Test Year Federal Income Tax	<u>(949)</u>	
 Adjustment - Increase / (Decrease) in Federal Income Tax Expense		<u><u>\$ (2,858)</u></u>
 Adjustment - Increase / (Decrease) Income Taxes		 <u><u>\$ (4,536)</u></u>

SETTLEMENT SCHEDULES

SWITZERLAND COUNTY GAS CO., INC. VEVAY, IN

DETAIL OF PRO-FORMA PROPOSED RATE ADJUSTMENTS

(A)

To adjust "Operating Revenues" to reflect proposed revenue increase.

Proforma Sales of Gas at present rates - Schedule C-3	\$ 1,668,782	
Requested rate increase	<u>4.790%</u>	
Adjustment - Increase / (Decrease)		<u>\$ 79,877</u>

(B)

To adjust "Other Operation and Maintenance" expense to reflect increase in IURC fee.

Proposed Revenue Increase	\$ 79,877	
Current effective IURC fee rate	<u>0.10735990%</u>	
Adjustment - Increase / (Decrease)		\$ 86

(C)

To adjust "Administrative and General Expense" to reflect increase in bad debts

Increase in Revenue Requested	\$ 79,877	
Current Effective Rate - Adjustment C-1 4 (d)	<u>0.007190</u>	
Adjustment - Increase / (Decrease)		<u>574</u>
TOTAL OTHER OPERATION AND MAINTENANCE		<u>\$ 660</u>

SETTLEMENT SCHEDULES**SWITZERLAND COUNTY GAS CO., INC.**
VEVAY, IN**DETAIL OF PRO-FORMA PROPOSED RATE ADJUSTMENTS**

(D)

To adjust "Taxes Other Than Income Tax"
to reflect pro-forma changes in revenues and expenses.

Utility Receipts Tax

Proposed Revenue Increase	\$	79,877	
Less: Increase in Bad Debts		574	
	\$	<u>79,303</u>	
Applicable Utility Receipts Tax Rate		<u>1.40%</u>	
Adjustment - Increase / (Decrease)			<u>\$ 1,118</u>

(E)

To adjust "Income Taxes" to reflect pro-forma
changes in revenues and expenses.

State Income Tax:

Proposed Revenue Increase	\$	79,877	
Less: Increase in IURC Fee		(86)	
Increase in Bad Debts		<u>(574)</u>	
Taxable Increase	\$	79,217	
Applicable Income Tax Rate		<u>8.50%</u>	
Adjustment - Increase			<u>\$ 6,733</u>

SETTLEMENT SCHEDULES**SWITZERLAND COUNTY GAS CO., INC.**
VEVAY, IN**DETAIL OF PRO-FORMA PROPOSED RATE ADJUSTMENTS**

(E) Continued

Federal Income Tax:

Proposed Revenue Increase	\$	79,877
Less: Increase in IURC Fee		(86)
Increase in Utility Receipts Tax		(1,118)
Increase in Bad Debts		(574)
Increase in State Income Tax		<u>(6,733)</u>
Federal taxable income increase	\$	71,366
Applicable tax rate		<u>15%</u>

Adjustment-Increase	\$	<u>10,705</u>
---------------------	----	---------------

Total Increase / (Decrease) to Income Tax	\$	<u>17,438</u>
---	----	---------------

SETTLEMENT SCHEDULES

SWITZERLAND COUNTY GAS CO., INC.
VEVAY, IN

TOTAL BILLED REVENUE CALCULATION

Estimated Volume of Gas Purchased - DTH	166,106
Estimated Cost of Gas for GCA for Life of Rates	<u>\$ 7.25</u>
Estimated Cost of Gas To Be Included in Revenues	\$ 1,204,269
Pro-Forma Present Rate Gas Sales Revenue	<u>464,513</u>
Total Revenue Including Gas Costs	\$ 1,668,782
Requested Percentage Increase	<u>4.79%</u>
Revenue Adjustment Requested	<u><u>\$79,877</u></u>

SETTLEMENT SCHEDULES

SWITZERLAND COUNTY GAS CO., INC. VEVAY, IN

ORIGINAL COST RATE BASE

Utility Plant In Service As Of December 31, 2009	3,039,899	
Less Belterra Casino Main Extension	<u>(1,700,592)</u>	1,339,307
Less: Accumulated Depreciation	(1,119,241)	
Plus: Accumulated Depreciation - Belterra Main	<u>484,614</u>	<u>(634,627)</u>
Net Utility Plant in Service		704,680
Plus:		
Working Capital	\$ 315,021 /8	<u>39,378</u>
Total Original Cost Rate Base		\$ 744,058
Times: Weighted Cost of Capital		<u>8.16%</u>
Net Operating Income Authorized		<u><u>\$ 60,715</u></u>

::

SETTLEMENT SCHEDULES**SWITZERLAND COUNTY GAS CO., INC.**
VEVAY, IN**CAPITAL STRUCTURE**
As of December 31, 2009

<u>Description</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
Common Equity	\$ 194,408	41.97%	9.90%	4.16%
Customer Deposits	9,905	2.14%	6.00%	0.13%
Long Term Debt	257,423	55.57%	6.97%	3.87%
Deferred Tax (Net)	<u>1,448</u>	<u>0.31%</u>	0.00%	<u>0.00%</u>
Total	<u><u>\$ 463,184</u></u>	<u><u>99.99%</u></u>		<u><u>8.16%</u></u>

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SWITZERLAND COUNTY NATURAL)	
GAS FOR AUTHORITY TO CHANGE ITS RATES,)	
AND CHARGES AND APPROVAL OF A NEW)	
SCHEDULE OF RATES AND CHARGES)	CAUSE NO. 43897-U
FOR GAS SERVICE RENDERED TO ITS)	
CUSTOMERS.)	

STIPULATION AND SETTLEMENT AGREEMENT

Switzerland County Natural Gas Company (hereinafter "Switzerland County Natural Gas" or "Petitioner") and the Indiana Office of Utility Consumer Counselor (hereinafter "OUCC") have met through their respective representatives for purposes of discussing the evidence of record and the information gained through the discovery process. The result of such discussions between the Petitioner and the OUCC (hereinafter collectively "the Parties") is a settlement of all issues in this Cause, as described by this Stipulation and Settlement Agreement (hereinafter the "Settlement").

The Parties believe that the evidence of record supports the terms of this Settlement. The Parties acknowledge that the terms and conditions of this Settlement are a result of negotiations between the Parties relative to the position each has taken or would take in further proceedings in this Cause. In the interest of efficiency, saving the limited resources of the regulatory bodies involved, and recognizing the reasonableness of the results produced by this Settlement, the Parties herein stipulate and agree as follows:

1. **Rate Increase.** Based on the test year ending December 31, 2009, as established by the Small Utility Filing application made by the Petitioner, and as adjusted for matters that are fixed, known, and measurable, and occurring within 12 months of the test year, Petitioner should

be authorized to increase its base rates and charges for purposes of natural gas service to its various customers to produce additional annual operating revenue exclusive of the cost of gas of \$79,877. This represents an increase of approximately 4.79% over adjusted test year operating revenue, including the cost of gas.

2. **Pro Forma Adjustments.** Petitioner proposed in its direct case in chief various adjustments to its test year book results as set forth numerically in Petitioner's Exhibit C, and accompanying schedules. Such pro forma adjustments include those related to operating revenue, payroll, pension, rate case expense, IURC fee, software maintenance agreement, charitable contributions, outside services expenses, property insurance, bad debt, depreciation expenses, payroll taxes, utility receipt taxes, property taxes, and the calculation methodology of all other taxes. During negotiations and referenced in the OUCC's report, the OUCC suggested different adjustments related to customer growth, payroll, pension, the IURC fee, rate case expense, property insurance, bad debts, directors fees, payroll taxes, utility receipts taxes, and the resulting federal and state income taxes which flow through, along with differences on Petitioner's cost of equity capital. The parties have resolved these different positions as follows:

Customer Growth. The Petitioner, as part of its direct case annualized the decrease in customers experienced during the test year and assumed a similar decrease for the 12 months following the test year. The OUCC proposed to only include the annualization of the test year. The Petitioner acknowledges that there has been no similar decrease in customers since the end of the test year period. Thus, the Parties have agreed to use the adjustment proposed by the OUCC.

Payroll. The Petitioner included, as part of its direct case, the cost of a new operations employee. The OUCC proposed an adjustment of \$2,000 less than the Petitioner's adjustment based on payroll records at the time of employment. At initial employment the new employee was receiving a probationary salary less than his current salary. Based on this, the Parties have agreed to use the adjustment proposed by the Petitioner.

Rate Case Expense. The Petitioner requested the anticipated cost of outside consultants for the rate case, the cost of changes to the customer billing software, recovery of unamortized rate case costs from the previous proceeding, and the cost of implementing an NTA process for the Petitioner over three years. The OUCC eliminated the unamortized cost of the unamortized rate case expense as it will be fully amortized prior to new rates going into effect, eliminated the cost of implementing an NTA process due to lack of approval for an NTA and amortizing the expenses over five years. Following further discussion between the Parties, the Parties have agreed that rate case expense should include all the elements of the Petitioner's adjustment except for the unamortized amount from the previous rate case and to use a five year amortization period.

Property Insurance. The Petitioner proposed an anticipated increase in its property insurance. The OUCC rejected this adjustment based on a lack of increase in the cost of property

insurance. The Petitioner acknowledges that such a reduction is appropriate. Thus the Parties are in agreement to recognize no change in the cost of property insurance.

Bad Debts. The Petitioner, in its case in chief, adjusted bad debts to an amount equal to the average of the last two years bad debt expense. The OUCC adjusted bad debt expense to an amount equal to the average of the last three years bad debt expense. The Parties have agreed to use the calculation made by the OUCC.

Director's Fees. The Petitioner made no adjustment to the director's fees which were paid during the test year at the rate approved in Cause No. 42844. The OUCC reduced director's fees as being excessive for a utility of such small size. Petitioner does not employ a CEO for the utility. The Board of Directors performs this function as part of their duties. As a result of discussions the Parties have agreed to include in rates the cost of 12 monthly meetings for 5 directors at the currently approved monthly rate of \$600 per director. In addition to documenting attendance of each director and the orders of business of each meeting in the utility's board minutes, Switzerland County Natural Gas also agrees to document all work by the directors outside of board meetings on a monthly time report and/or the Minutes of the Meeting of the Board of Directors showing topic of work, date of work, and hours worked on utility business.

Pension, Payroll Taxes, Income Taxes, and IURC Fee Expense.

The Parties stipulate and agree that changes in Petitioner's present operating revenue and expenses will cause a change in the pension, IURC fee, and various taxes. The Parties are in agreement as to the methodology of calculating these expenses and recognize that the resulting calculation will flow through from the overall revenue requirement established. The Parties agree that the IURC fee, taxes, and bad debt expense are those reflected on the attached Exhibit 1.

3. **Rate Base.** The Petitioner has proposed a rate base of \$745,861 based upon an original cost value of utility plant in service less accumulated depreciation of \$704,680. The OUCC suggested a rate base value of \$741,414 utilizing the same net utility plant as Petitioner, but proposing a different working capital amount. Following negotiation, the Parties realized that each has calculated working capital using the same methodology. However, the Parties also recognize that the differences between them on the revenue requirement directly impacted their respective working capital results. Based upon the agreement of the Parties now as to Petitioner's revenue requirement, including various operating expenses, the Parties agree that the working capital element of Petitioner's rate base for purposes of setting rates should be \$39,378. Including this amount as the working capital amount, the Parties agree that Petitioner's rate base calculated using an original cost basis is \$744,058. Further the Parties agree that this original cost rate base should be used to determine an appropriate proforma net operating income for this Petitioner.

4. **Cost of Capital.** The Petitioner, through its original direct case, and the OUCC, during the course of negotiation with Petitioner, each proposed a cost of capital based upon the

same elements of common equity, long-term debt, customer deposits, and deferred taxes. The only area of initial disagreement was as to the appropriate cost of common equity to be used in this cost of capital calculation. Originally, Petitioner proposed 11.15% as the cost of common equity. The OUCC, in its report, suggested a cost of common equity of 9.7%. Following discussion, the Parties have now agreed that 9.9% cost of common equity would provide a reasonable return on Petitioner's equity component as part of Petitioner's capital structure. The Parties thus now believe that the following represents a reasonable capital structure for this Petitioner for purposes of determining a reasonable overall return.

Description	Amount	of Total	Cost	Weighted Cost
Common Equity	\$ 194,408	41.97%	9.90%	4.16%
Customer Deposits	9,905	2.14%	6.00%	0.13%
Long Term Debt	257,423	55.57%	6.97%	3.87%
Deferred Tax (Net)	<u>1,448</u>	<u>0.31%</u>	0.00%	<u>0.00%</u>
Total	<u>\$ 463,184</u>	<u>99.99%</u>		<u>8.16%</u>

5. **Proforma Net Operating Income.** Based upon the agreement of the Parties as to Petitioner's rate base and Petitioner's cost of capital; and recognizing the Parties' agreement as to all of the elements of Petitioner's revenue requirement; the Parties agree that Petitioner should be authorized to earn 8.16% on its invested original cost rate base of \$744,058, thus authorizing Petitioner the opportunity to earn a net operating income of \$60,716.

6. **NTA Implementation.** The Parties have agreed that there will be a benefit to customers in having an NTA mechanism and related educational communication from the Petitioner. The attached Exhibit 1 includes an NTA tariff for weather sensitive customers, heating degree day tables for the selected weather station of Cincinnati and the marginal rate calculation. The primary contact for customer inquiries will be Mrs. Marsha Chase. The actual calculation of the NTA will be exactly the same as that already approved by the IURC in Cause No. 43107, 43108, 43109, 43110, 43135, 43136, 43137 and 43141. In addition the Petitioner already has a customer education program in place that uses various methods including mailings and radio ads to communicate with customers.

7. **Settlement Schedules.** The Parties agree that the final schedules attached here as Exhibit 1 properly describe the various elements of the Parties' final settlement. Further, the Parties believe that such final settlement schedules should be used by the Commission to enter a final order in this Cause.

8. **Request for Prompt Approval by the Commission.** The Parties acknowledge that a significant motivation for the Petitioner to enter into this Settlement is the expectation that a final order will be issued promptly by the Commission authorizing increases in its rates and charges as reflected herein. The Parties have spent significant time and effort to resolve the issues raised in this case. However, the Parties also recognize the insufficiency of Petitioner's current rates, as reflected by the prefiled evidence. Under these circumstances, the Parties to this Settlement jointly request prompt approval of this Settlement by way of a final order of the Commission.

9. **Sufficiency of the Evidence.** The Parties believe that the Petitioner's direct testimony and exhibits, the OUCC's direct testimony and exhibits, the Petitioner's supplemental

testimony and exhibits, along with this Stipulation and Settlement Agreement, constitute substantial evidence sufficient to support this Settlement and provide an adequate evidentiary basis upon which the Commission may make findings of fact and conclusions of law necessary to issue a final order adopting and approving this Settlement.

10. **Settlement Effect, Scope, and Approval.** The Parties acknowledge and agree as follows:

(a) This Settlement is conditioned upon and subject to its acceptance and approval by the Commission in its entirety without change or condition that is unacceptable to any party. Each term of the Settlement is in consideration and support of each and every other term.

(b) This Settlement is the result of compromise by the Parties within the settlement process. Neither the making of this Settlement nor any of the individual provisions or stipulations herein shall constitute an admission or waiver by any Party in any other proceeding; nor shall they constitute an admission or waiver in this proceeding if the Settlement is not accepted by the Commission. This stipulation shall not be used as precedent in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce its terms.

(c) The communications and discussions among the Parties, along with the materials produced and exchanged during the negotiation of this Settlement, relate to offers of settlement and compromise, and as such, all are privileged and confidential. Such material cannot be used in this or any other proceeding without the agreement of the Parties herein.

(d) The undersigned represent and agree that they are fully authorized to execute this Settlement on behalf of their designated clients who will thereafter be bound by this Settlement.

(e) The Parties hereto will either support; or not oppose on rehearing, reconsideration, and/or appeal; an IURC order accepting and approving this Settlement in accordance with its terms.

Accepted and agreed this 29 day of October, 2010.

SWITZERLAND COUNTY
NATURAL GAS CORPORATION

By: Duane Mercer
Duane C. Mercer

INDIANA OFFICE OF UTILITY
CONSUMER COUNSELOR

By: TMT
Its Counsel of Record

1187808

**SWITZERLAND COUNTY NATURAL
GAS CO., INC.**

Vevay, Indiana

TARIFF FOR GAS SERVICE

ISSUED PURSUANT TO ORDER OF THE
INDIANA UTILITY REGULATORY COMMISSION
IN CAUSE NO. 43897-U

Effective: _____

INDEX

<i>Description</i>		<i>Sheet No.</i>
Title Page		1
Index		2
<u>RATE</u>	<u>RATE SCHEDULES</u>	
1	General Service	3
	Normal Temperature Adjustment	4
2	Large Commercial and Industrial Service	5
<u>APPENDIX</u>	<u>APPENDICES</u>	
A	Gas Cost Adjustment	6
B	Base Rate Cost of Gas	7
C	Other Charges	8

Effective: _____

RATE 1 **GENERAL SERVICE**

AVAILABILITY

Available for general natural gas service to residential, commercial and small industrial customers.

CHARACTER OF SERVICE

This Rate Schedule applies to the provision of natural gas sales service having a heating value of approximately 1000 BTU per cubic foot.

RATES AND CHARGES

The monthly Rates and Charges for Gas Service under this Rate Schedule shall be:

Customer Charge:

\$10.55 per meter

Commodity Charge:

First 102.5 therms per month @ \$0.34724 per therm

Over 102.5 therms per month @ \$0.29321 per therm

Gas Cost Charge:

The Gas Cost Charge shall be as set forth on Appendix A, Gas Cost Adjustment, for each therm of Company-supplied gas.

Minimum Monthly Charge:

The Minimum Monthly Charge shall be the Customer Charge.

Other Charges:

The Other Charges set forth in the Tariff for Gas Service shall be charged to Customer, if applicable.

Late Payment Charge:

Bills shall be rendered and due monthly. If Customer does not pay a bill for gas service on or before the gross payment date, Customer shall be charged a Late Payment Charge as follows:

On the first \$3.00 or less of net billing	10%
On the amount in excess of \$3.00	3%

Effective: _____

NORMAL TEMPERATURE ADJUSTMENT

The billed amount for each Rate G Customer shall be subject to a Normal Temperature Adjustment (NTA) for each bill rendered during the billing months of October through April inclusive.

The NTA adjusts each Customer's monthly billed amount to reverse the impact on margin recovery caused by non-normal temperatures during the billing period, as measured by actual heating degree day variations from normal heating degree days.

NTA COMPUTATION

The NTA for each Customer's monthly billing shall be computed as follows:

$$\text{NTA} = \text{NTA Therms} \times \text{NTA Margin}$$

NTA THERMS

The NTA Margin shall be the margin (non-gas cost) component of the first block rate (Base Rate Less Base Cost of Gas) for the applicable Rate Schedule.

BASE LOAD THERMS

Base Load Therms shall be Customer's average daily therms usage for the previous summer months (months of July and August) multiplied by the number of days in the billing period.

For Customers whose Base Load Usage cannot be accurately determined (e.g., new Customers without two months of summer usage history), an estimated Average Daily Therms shall be used.

NORMAL AND ACTUAL DEGREE DAYS

Normal Degree Days for each Customer's billing period shall be those utilized by the Commission for purposes of determining the Company's current base rates unless otherwise authorized.

Actual Degree Days for each Customer's billing period shall be taken from the actual heating degree days reported each day by the National Weather Service.

Effective: _____

RATE 2 **LARGE COMMERCIAL AND INDUSTRIAL SERVICE**

AVAILABILITY

Available for general natural gas service to large commercial and industrial customers whose annual volume is greater than 10,000 therms.

CHARACTER OF SERVICE

This Rate Schedule applies to the provision of natural gas sales service having a heating value of approximately 1000 BTU per cubic foot.

RATE AND CHARGES

The monthly Rates and Charges for Gas Service under this Rate Schedule shall be:

Customer Charge:

\$87.90 per meter

Commodity Charge:

All therms per month @ \$0.22793 per therm

Gas Cost Charge:

The Gas Cost Charge shall be as set forth on Appendix A, Gas Cost Adjustment, for each therm of Company-supplied gas.

Minimum Monthly Charge:

The Minimum Monthly Charge shall be the Customer Charge.

Other Charges:

The Other Charges set forth in the Tariff for Gas Service shall be charged to Customer, if applicable.

Late Payment Charge:

Bills shall be rendered and due monthly. If Customer does not pay a bill for gas service on or before the gross payment date, Customer shall be charged a Late Payment Charge as follows:

On the first \$3.00 or less of net billing	10%
On the amount in excess of \$3.00	3%

Effective: _____

APPENDIX A
GAS COST ADJUSTMENT

Effective for Billing Cycle: _____ through _____.
Cause No. 37791-GCA ____
GCA Order Approved: _____

The Rate Adjustment for the following Rates shall be on the basis of a Rate Tracking Factor, or Gas Cost Adjustment ("GCA"), occasioned solely by changes in the cost of purchased gas in accordance with the Orders of the Indiana Utility Regulatory Commission approved in Cause No. 37091 as follows:.

Rate Schedule

GCA Rate
(\$ per therm)

Rate 1 - General Service

\$0.xxxx

Rate 2 - Large Commercial and Industrial Service

\$0.xxxx

Current base rates effective _____, in accordance with the Indiana Utility Regulatory Commission Order Issued under Cause No. 43897-U.

Effective: _____

APPENDIX B
BASE RATE COST OF GAS

The base rate cost of gas utilized in the calculation of the Gas Cost Adjustment rates specified on Appendix A and in accordance with the Order of the Indiana Utility Regulatory Commission in Cause No. 43897-U is as follows:

Rate Schedule

Base Rate Cost of Gas

Rate 1 - General Service

\$0 per therm

Rate 2 - Large Commercial and Industrial Service

\$0 per therm

Effective: _____

APPENDIX C
OTHER CHARGES

<u>DESCRIPTION OF CHARGE</u>	<u>CHARGE</u>
Return check by bank	\$10.00
Reconnection Charge during regular working hours	\$20.00
Reconnection Charge other than regular working hours	\$40.00
Customers are required to pay construction cost for service line to meter	Cost

The full amount due the utility must be paid in cash before reconnection.

Effective: _____